Conclusion

Businesses designated as farms in the U.S. range from small operations with little or no production to operations with thousands of acres and thousands of head of livestock. Sales, expenses, off-farm income, labor allocation decisions, and the amount of government payments received also represent some of the attributes that vary considerably across farms producing similar outputs. Across farms producing different goods, these categories can vary even more.

USDA uses a very broad definition of the farm (any place that could produce at least $1,000 worth of agricultural goods in a given year) to monitor the health and productive capacity of the entire agricultural sector. On the one hand, using such a broad definition means that a large share of land in agriculture gets accounted for, which may be important for conservation or estate transfer policies. On the other hand, the majority of farms captured by this definition produce very little output and generate minimal sales, while a relatively small number of very large farms produce the bulk of agricultural goods and sales in the United States. As a result, the statistics generated for the farm sector as a whole need to be carefully interpreted.

Recognizing this, policymakers have sometimes tried to aim Federal agricultural programs at those farm households deemed actively engaged in agriculture. Recently, proposals aimed at refining the definition of "actively engaged" have arisen in an attempt to target payments more precisely to their intended recipients.

Several screens have been proposed to help better target Federal assistance to intended recipients. A sales screen could be used to identify those farmers that produce and bring to market substantial amounts of agricultural goods. However, careful implementation would be required to ensure the inclusion of farm households that may have produced (or tried to produce) substantial levels of output, yet had little or no sales.

The share of income from farming also has been proposed to identify actively engaged farmers. In general, the more heavily the household relies on farming for income, the more actively engaged in farming the operator is likely to be. However, the link between production and income is not straightforward; higher than expected costs, bad luck (weather, pest infestations, animal disease), and even capital equipment investments (which can lead to high depreciation expenses) can radically lower income levels from farming, making this type of screen unreliable as a measure of active engagement.

A third proposal uses off-farm income levels to help distinguish between operations where the farmer is actively engaged in farming from those operated as part-time or hobby farms. High levels of off-farm income suggest that the operator does not rely heavily on the farm for income, while lower levels increase the likelihood that the farmer is actively engaged in farming. However, households of small farms with low levels of agricultural sales can also generate low levels of off-farm income, while the households of large farms with very high levels of agricultural sales can also produce high levels of off-farm income. In general, most farm households generate substantial

levels of off-farm income, making it unclear whether or not this screen would allow policymakers and program managers to target their intended recipients better.

While screens might help target Federal aid to farmers, both the choice and the implementation of an appropriate screen require careful consideration. Important subsections of the agricultural population, such as beginning farmers, socially disadvantaged farmers, and limited-resource farmers, could be excluded from Federal assistance if any of the screens explored in this report were applied without exceptions. Additionally, the screens explored in this report may not work well if policymakers wish to pursue environmental goals rather than ensuring that Federal assistance accrues to those who are actively engaged in agriculture.

U.S. agricultural production has been shifting to larger and larger farm operations over time, raising the question of how the screens that may help identify actively engaged farms might affect family farms. As defined by ERS, 97 percent of all farms in the U.S. are family farms, generating 84 percent of all agricultural sales. However, other groups use varying definitions of the family farm that either implicitly or explicitly involve farm size constraints, excluding larger farms from being classified as family farms. Consequently, while most farms tend to remain family farms under all the various definitions examined, adding labor, land, and confined animal feeding operation (CAFO) restrictions to the definition of a family farm significantly redistributes production (sales) to nonfamily farms.